

**DOCKET SECTION**

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**NOTICE OF THE UNITED STATES POSTAL SERVICE  
CONCERNING ERRATA  
TO THE DIRECT TESTIMONY OF WITNESS FRONK (USPS-T-32)**

The United States Postal Service hereby files these errata to the direct testimony of witness Fronk (USPS-T-32) to correct typographical errors.

A list of each of the changes is attached, along with corrected testimony pages.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 1, 1997

**REVISED PAGES TO CORRECT TYPOGRAPHICAL ERRORS IN THE  
TESTIMONY OF WITNESS FRONK (USPS-T-32)**

<u>Page</u>	<u>Line</u>	<u>Change</u>
4	Under section labeled "Presorted (all shapes)"	line-up current and proposed rates with rate category names
11	9	Change "Tables 1 and 2" to "Tables 3 and 4"
24	17	Insert "presorted" before "First- Class"
24	19	Change "1990" to "1991"
37	19	Change "letters and stamps" to "letters and cards"
43	3	Change "PRM" to "BRM"
43	20	Change "1991" to "1990"
Exhibit USPS-32B		In the "Revenue Per Piece" line under "Letters and Cards," the \$ entries were 0 due to a cell formatting error. Change entries to display numbers.

Table 1 – Rates for First-Class Letters

	Current Rate (cents)	Proposed Rate (cents)
<b>Single-Piece &amp; Nonautomated Presort:</b>		
Single Piece (all shapes):		
First Ounce	32	33
Nonstandard Surcharge	11	16
Hazardous Medical Materials Surcharge	N/A	50
Prebarcoded Parcels (experimental)*	28	29
Prepaid Reply Mail	N/A	30
Qualified Business Reply Mail	N/A	30
Presorted (all shapes):		
First-Ounce	29.5	31
Nonstandard Surcharge	5	11
Heavy Piece Deduction	-4.6	0
Additional Ounce	23	23
<b>Automated:</b>		
Letters (First Ounce):		
Basic Automation	26.1	27.5
3-Digit	25.4	26.5
5-Digit	23.8	24.9
Carrier Route	23	24.6
Flats (First Ounce)		
Basic Automation	29	30
3/5 Digit Flats	27	28
Nonstandard Surcharge	5	11
Heavy Piece Deduction	-4.6	0
Additional Ounce	23	23

\* This experimental rate is in effect until April 28, 1998.

1 individual aged 45-54 years. Volume then falls off as the age of the head of the  
2 household increases. Volume of First-Class Mail received also depends on the  
3 occupation of the head of household and whether the household is urban or  
4 rural. As an occupational group, white collar professionals receive the most mail,  
5 and suburbanites receive more mail than both city-dwellers and rural  
6 households.

7

#### 8 **IV. VOLUME AND REVENUE HISTORY**

9 Tables 3 and 4 provide historical information on First-Class Mail volumes,  
10 revenues, and percentage shares. Since 1970, First-Class Mail volume has  
11 decreased somewhat as a percentage of total mail volume, dropping from 59  
12 percent of total volume in 1970 to 54 percent in 1990. Since 1990, however,  
13 First-Class Mail volume as a percentage of total mail volume has remained fairly  
14 steady at approximately 54 percent.

15 This decline in volume share occurred despite the fact that First-Class  
16 Mail volume has increased every year since 1976. From 1976 to 1996, First  
17 Class Mail volume nearly doubled, from 52.5 billion pieces annually to 98.2  
18 billion pieces. The average annual growth rate in First-Class Mail volume has  
19 been declining in recent years, however. During the 1980s, First-Class Mail  
20 volume increased about 3.6 percent per year on average. During the 1990s, the  
21 average annual growth rate has been only 1.6 percent.

1 metered benchmark cost (see Exhibit USPS-T-29C).<sup>4</sup> I reduced the discount  
2 somewhat in order to increase the incentive for mailers to prebarcode their mail  
3 and thus to further the automation goals of the Postal Service.

4 **d. Nonstandard Surcharge**

5 The Postal Service proposes increasing the nonstandard surcharge for  
6 nonpresort mail weighing one ounce or less from 11 cents to 16 cents. In  
7 addition, the Postal Service proposes increasing the nonstandard surcharge for  
8 presort mail weighing one ounce or less from 5 cents to 11 cents.

9 These increases reflect the results of new nonstandard surcharge cost  
10 data (see USPS Library Reference H-112). The proposed surcharges are the  
11 minimums needed to recover the additional mail processing costs associated  
12 with handling nonstandard mail.

13 **e. Heavy Piece Discount**

14 The Postal Service proposes eliminating the heavy-piece discount of 4.6  
15 cents which currently applies to presort mail weighing more than 2 ounces. This  
16 change affects a relatively small number of mail pieces. In 1996, about 300  
17 million pieces, or 1 percent, of presorted First-Class Mail received this discount.

18 There are two related reasons for this proposal. First, by keeping the  
19 additional-ounce rate the same since 1991 and progressively increasing the  
20 difference with the first-ounce rate, the Postal Service has already reduced the

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<sup>4</sup> Shortly before the filing of the Request in this proceeding, the mail processing cost associated with the bulk metered benchmark estimate was revised, as indicated in USPS-T-29C. This revised cost was not available at the time this rate proposal for nonautomated presort mail was developed and approved by the Board of Governors.

1 address the threat of electronic diversion and, at the same time, provide added  
2 convenience for the general public.

3 **b. Sharing the Benefits of Automation and Improving the Convenience**  
4 **of the Mail**

5  
6 PRM is clean, pre-barcoded mail and incurs less mail processing costs  
7 than non-barcoded mail. Automation-compatible First-Class Mail is used daily by  
8 millions of individuals and small businesses. By recognizing some of the cost  
9 savings associated with this mail, the Postal Service is able to permit the general  
10 public to more directly share in the benefits of automation and to enjoy the  
11 convenience of not having to affix postage to a portion of their core  
12 correspondence.

13 The concept of a discounted rate in the form of Courtesy Envelope Mail  
14 (CEM) rate or a Public's Automation Rate (PAR) has been around for some time.  
15 The Commission recommended the adoption of either shell classifications or  
16 rates and classifications of this type in Docket Nos. R87-1, R90-1, and MC95-1.

17 *In comparison to other alternatives, Prepaid Reply Mail has the advantage*  
18 *of not burdening and confusing the public with two different stamps for both*  
19 *letters and cards. The proposal also has the advantage of avoiding the serious*  
20 *Postal Service administrative and enforcement problems associated with what*  
21 *would happen if the general public were expected to use differently-rated*  
22 *postage stamps for its First-Class Mail correspondence and transactions.*<sup>11</sup>

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<sup>11</sup> For a detailed discussion of the problems with two stamps, see the testimony of witness Alexandrovich (USPS-RT-7) and witness Potter (USPS-RT-6) in Docket No. MC95-1.

1 estimate by computing the break-even BRM volume needed to make the monthly  
2 fee of PRM less expensive than the per-piece fees of BRM. I then aggregate the  
3 volumes associated with the BRM permits above this break-even volume. These  
4 calculations are contained in my Workpaper III.

5 Second, the Postal Service has limited information about how much  
6 courtesy reply mail might switch to PRM. As described below, I have developed  
7 a "round-number" estimate of 500 million pieces of courtesy reply envelope mail  
8 that might shift to PRM.

9 Household Diary Study data indicate about 41 percent of courtesy reply  
10 envelopes are associated with two industries likely to be attracted to this rate –  
11 credit card companies and utilities. Taking 41 percent of 6,800 million pieces of  
12 courtesy reply envelope mail yields 2,800 million pieces. In the Test Year, I  
13 estimate up to 10 percent of this mail would switch to PRM, yielding 280 million  
14 pieces.

15 I further estimate that a smaller fraction, 2 percent, of the remaining  
16 4,000 million pieces of courtesy reply envelope mail could switch to PRM. The  
17 result is 80 million pieces. I based this percentage on the experience of the  
18 Postal Service in introducing a barcode discount in the late 1980s. In the first full  
19 year following the introduction of barcodes (1989), 2.0 percent of presorted mail  
20 was barcoded. (This percentage increased to 6.5 percent in 1990.) While not a  
21 perfect parallel by any means, experience with this postal product provides some

Revised 10/1/97

Exhibit USPS-32B

**FIRST-CLASS SUMMARY: TOTAL CLASS AND SUBCLASS  
FY 1998 BEFORE AND AFTER RATES**

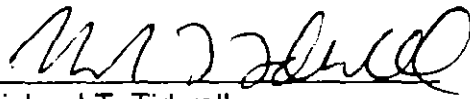
	<u>BEFORE RATES</u>	<u>AFTER RATES</u>	<u>% CHANGE</u>
<b><u>LETTERS:</u></b>			
VOLUMES	95,901,302	95,550,984	-0.37%
REVENUES:			
POSTAGE REVENUE	\$32,521,960	\$33,454,602	2.87%
FEE REVENUE	\$146,300	\$160,166	9.48%
TOTAL REVENUE	\$32,668,260	\$33,614,768	2.90%
REVENUE PER PIECE	\$0.340645	\$0.351799	3.27%
COSTS:			
TOTAL COSTS (incl. 1.0% contg.)	\$16,753,648	\$16,846,154	0.55%
COST COVERAGE	194.99%	199.54%	2.33%
CONTRIBUTION	\$15,914,612	\$16,768,614	5.37%
<b><u>CARDS:</u></b>			
VOLUMES	5,693,118	5,523,047	-2.99%
REVENUES:			
TOTAL POSTAGE REVENUE	\$1,051,784	\$1,079,473	2.63%
FEE REVENUE	\$8,059	\$9,505	17.94%
TOTAL REVENUE	\$1,059,843	\$1,088,978	2.75%
REVENUE PER PIECE	\$0.186162	\$0.197170	5.91%
COSTS:			
TOTAL COSTS (incl. 1.0% contg.)	\$610,907	\$592,934	-2.94%
COST COVERAGE	173.49%	183.66%	5.86%
CONTRIBUTION	\$448,936	\$496,044	10.49%
<b><u>LETTERS AND CARDS:</u></b>			
VOLUMES	101,594,420	101,074,031	-0.51%
REVENUES:			
TOTAL POSTAGE REVENUE	\$33,573,744	\$34,534,075	2.86%
FEE REVENUE	\$154,359	\$169,671	9.92%
TOTAL REVENUE	\$33,728,103	\$34,703,746	2.89%
REVENUE PER PIECE	\$0.331988	\$0.343350	3.42%
COSTS:			
TOTAL COSTS (incl. 1.0% contg.)	\$17,364,554	\$17,439,088	0.43%
COST COVERAGE	194.24%	199.00%	2.45%
CONTRIBUTION	\$16,363,549	\$17,264,658	5.51%

Source: USPS-T-32, Workpaper I.



# CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
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October 1, 1997